Hollow Empire, Hollow Degrees: Momentum vs. Titles in U.S. Political Economy

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Abstract

The United States remains the world's largest economy, yet a growing share of its citizens—especially the bottom 50%—struggle to accumulate assets or move up the income ladder. I advance a simple diagnostic: the U.S. is chasing titles rather than momentum. The country continues to hold the "title" of global leader (military outlays, reserve currency status, mega-cap equities), while allowing the broad domestic base that supplies talent, enlistment, and innovation to lose momentum.

I formalize this idea with a comparative metaphor from medicine—DO vs. IMG—where degree titles can mask differences in trajectory (research intensity, breadth of training, global competitiveness). I then assemble stylized facts: the widening pay–productivity gap, extreme concentration of equity wealth, erosion of absolute mobility, and the offshoring of profits and wealth. I trace the mechanisms—financialization (e.g., Rule 10b-18 buybacks), global profit shifting and tax havens, trade shocks, and reliance on a reserve-currency & alliance premium—that support top-end wealth while undercutting broad-based capabilities. Finally, I propose a pragmatic, fiscally realistic program: tax-base repair (anti–profit shifting, buyback guardrails), human-capital reinvestment (education, health), worker voice, and mission-oriented R&D—all aimed at restoring momentum to the median household.

This framework generates testable predictions (e.g., recruiting capacity and innovation rates follow bottom-50% asset growth with lags) and offers a tractable narrative linking macro structures to micro incentives.

1. Introduction: Titles Without Momentum

By most headline metrics, the U.S. looks unbeatable. It spends far more on defense than any other country and shoulders a dominant share of NATO outlays; the dollar remains the world's primary reserve currency, supported by deep capital markets and security alliances. Those titles, however, sit uneasily alongside stagnant median wealth, heavy financialization, and chronic under-investment in people. This paper's central claim is that titles—"largest military," "reserve

currency," "trillion-dollar tech"—can obscure a loss of momentum for the bottom half of households. The diagnostic lens is simple: measure national strength by the trajectory of median capabilities and assets, not by the peak of indices or budgets.

2. A Working Metaphor: Degrees, Titles, and Momentum

In medical education, a credential (e.g., DO vs. MD/IMG) can be a poor proxy for capability trajectory—research output, breadth in biophysics/med-chem/biochemistry, and adaptability to different systems. Likewise, the United States holds impressive titles—market caps, military spending, reserve currency—but momentum depends on reinvestment in people. The core question is whether the bottom 50% are gaining skills, health, and assets fast enough to sustain power without paper illusions.

3. Stylized Facts: What the Data Say

3.1 Pay–productivity gap. Since the late 1970s, productivity has risen while typical worker compensation has lagged, reflecting institutional changes, declining worker bargaining power, and rising inequality.

3.2 Wealth and equity concentration. Federal Reserve distributional accounts show the bottom 50% with minimal corporate equity; the top decile (especially the top 1%) holds the overwhelming share.

3.3 Mobility has fallen. Absolute income mobility—children out-earning their parents—declined markedly for cohorts born after 1940, with inequality a central driver.

3.4 Offshore wealth and profit shifting. A significant share of wealth and profits are routed through tax havens, eroding domestic tax capacity.

3.5 Defense, alliances, and reserve currency. The U.S. devotes near-trillion-dollar sums to defense and benefits from dollar primacy. These are strategic assets but not substitutes for investing in domestic human capital.

4. Mechanisms: How the Structure Hollowed the Base

4.1 Financialization and policy. Since the 1980s, safe-harbor buybacks and a shareholder-first norm elevated equity values, skewing gains to those who already owned assets.

4.2 Policy-driven valuations: the EV example. Clean-vehicle credits and related incentives support demand and can amplify equity valuations for qualifying firms—one factor among profitability, interest rates, and investor narratives.

4.3 Globalization shocks. Trade integration produced aggregate gains but slow, uneven labor-market adjustment in import-competing regions, widening regional inequality.

4.4 Offshore wealth and profit shifting. Multinational profit shifting and hidden household wealth reduce effective tax bases in high-tax jurisdictions, constraining public investment.

4.5 Reserve-currency & alliance premia. Dollar primacy and security architectures stabilize financing and geopolitical leverage, but can mask internal under-investment when external demand for dollar assets stays high.

5. Consequences: Capability Erosion and Recruitment Risks

A hollowed base hampers recruitment capacity and operational readiness. Recent recruiting cycles highlight persistent challenges linked to population health, education, and motivation. Capability follows the condition of the broad population.

6. A Program to Restore Momentum (Evidence-Based & Feasible)

Principle: shift from paper wealth to productive capacity—especially for the bottom half.

1) Repair the tax base: enforce anti–profit-shifting rules (BEPS, country-by-country reporting, minimum effective taxes) and add guardrails to buybacks (disclosure, blackout windows, compensation linkage).

2) Human-capital reinvestment with high social returns: strengthen foundational education, expand affordable tertiary pathways, and improve cost-effective access to primary and mental health.

3) Worker voice and labor-market institutions: rebuild balanced bargaining (e.g., sectoral dialogue, portable benefits) to compress the pay–productivity gap.

4) Mission-oriented public R&D: aim at spillover-rich missions (biosecurity, energy storage, compute efficiency) that diffuse capability.

5) Guardrails for incentive design (EVs and beyond): keep credits that build domestic supply chains and labor capability, with eligibility criteria tied to measurable U.S. workforce gains.

7. International Context: The Education Arms Race

India and China now produce vast numbers of science and engineering graduates. The U.S. benefits from attracting international talent, but titles will not protect leadership if momentum—skills, research throughput, diffusion—shifts abroad.

8. Back to the Metaphor: DO vs. IMG as a Policy Lens

The credential is a starting point; trajectory—continuous learning, research intensity, adaptability—wins in competitive environments. A nation that prizes titles (index levels, defense totals) while underfunding trajectory (mass skills, health, assets) resembles the clinician who keeps the title but loses to global peers who publish, specialize, and adapt.

9. Research Agenda & Testable Predictions

1) Recruiting elasticity: bottom-50% net-worth growth predicts military recruiting success with 2–4 year lags (test with distributional accounts).

2) Innovation diffusion: mission R&D raises non-patent indicators (open-source code, datasets, standards adoption) in lagging regions.

3) Policy-valuation channels: event-study clean-vehicle credits → order backlogs → market-cap responses for qualifying vs. non-qualifying firms.

4) Profit-shifting enforcement: stronger country-by-country enforcement raises domestic corporate tax receipts and measured investment.

10. Conclusion: From Titles to Momentum

The United States can rebuild broad-based prosperity. The post-war template remains instructive: invest in people, keep finance in service of production, and tax cross-border arbitrage that evades the social contract. Reserve-currency and alliance systems are scaffolds, not substitutes for domestic strength. Real power returns when the median household's capabilities and assets rise reliably year after year.

Notes on Policy and Valuations

Wealth surges at the very top correlate strongly with equity-market gains and concentrated ownership stakes. For example, electric-vehicle credits plausibly supported demand, but equity valuations reflect multiple drivers including profitability, liquidity conditions, and investor narratives. The analysis here characterizes such episodes as policy-amplified equity appreciation rather than monocausal effects.

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Appendix A: Suggested Figures for SSRN Upload

A1. Productivity vs. typical compensation (1948–present) — Economic Policy Institute.

A2. Wealth shares by percentile (1989–present) — Federal Reserve DFA.

A3. U.S. defense outlays and NATO share (latest) — SIPRI.

A4. Absolute mobility across cohorts — Chetty et al. (2017).

A5. Clean Vehicle Credit (IRC §30D) structure — IRS.